

**SOUTH O'BRIEN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
John Friedrichsen	President	2011
Sue McCauley	Vice President	2011
Kevin Nelson		2013
Lori Burmakow		2013
Todd Faust		2011
Brian Massman		2011
Darrell Rehder		2013

School Officials

Daniel Moore	Superintendent
Sharla Rupert	District Secretary
Marty Weber	District Treasurer

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report

To the Board of Education of
South O'Brien Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of South O'Brien Community School District, Paullina, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of South O'Brien Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2012 on our consideration of South O'Brien Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South O'Brien Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the five years ended June 30, 2008 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

January 9, 2012

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

South O'Brien Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,881,290 in fiscal 2010 to \$6,380,529 in fiscal 2011 (an 8% increase), while General Fund expenditures increased from \$6,234,166 in fiscal 2010 to \$6,563,202 in fiscal 2011. The District's General Fund balance decreased from \$863,212 in fiscal 2010 to \$683,504 in fiscal 2011 (a 21% decrease)
- The increase in General Fund revenues was primarily due to an increase in local and state funding. Expenses grew primarily as a result of normal payroll and benefit increases.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of South O'Brien Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report South O'Brien Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the Student Activity and fiduciary funds and a multiyear comparison of revenues and expenditures.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

GASB 34 South O'Brien Community School District Annual Financial Report

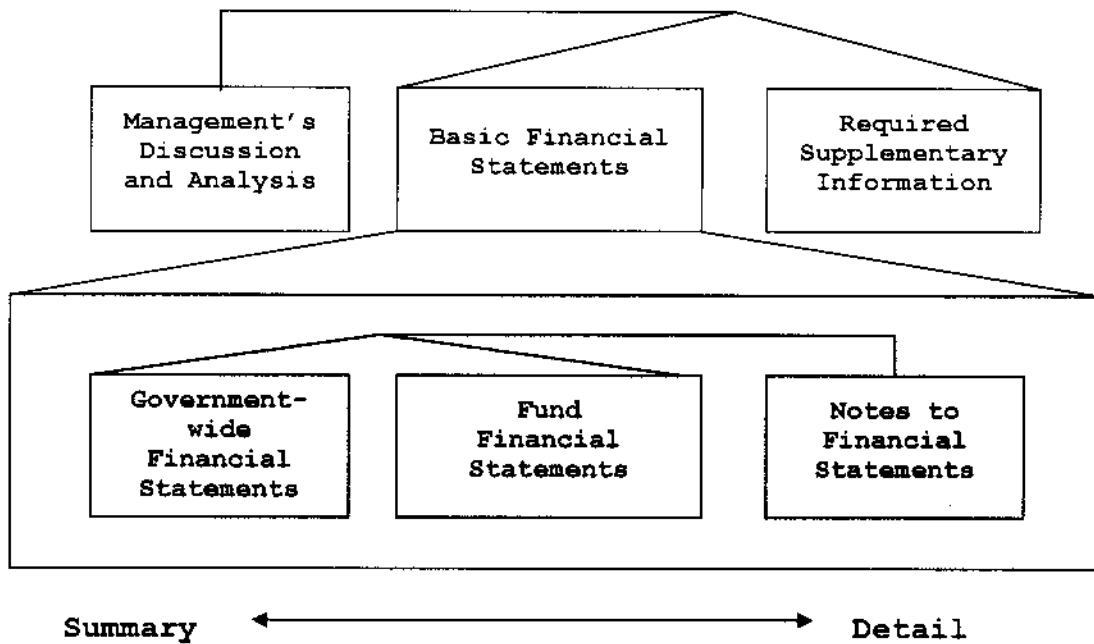


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students and the South O'Brien Foundation in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to the year ending June 30, 2010.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Current assets	\$ 6,274	\$ 6,188	56	56	6,330	6,244	1.38%
Capital assets	4,631	4,745	56	57	4,687	4,802	-2.39%
Total assets	<u>10,905</u>	<u>10,933</u>	<u>112</u>	<u>113</u>	<u>11,017</u>	<u>11,046</u>	<u>-0.26%</u>
Current liabilities	4,184	4,024	9	11	4,193	4,035	3.92%
Non-current liabilities	1,439	1,768	-	-	1,439	1,768	-18.61%
Total liabilities	<u>5,623</u>	<u>5,792</u>	<u>9</u>	<u>11</u>	<u>5,632</u>	<u>5,803</u>	<u>-2.95%</u>
Net Assets							
Invested in capital assets, net of related debt	3,601	3,330	56	57	3,657	3,387	7.97%
Restricted	1,144	1,227	-	-	1,144	1,227	-6.76%
Unrestricted	537	584	47	45	584	629	-7.15%
Total net assets	<u>\$ 5,282</u>	<u>\$ 5,141</u>	<u>103</u>	<u>102</u>	<u>5,385</u>	<u>5,243</u>	<u>2.71%</u>

The District's combined net assets increased by 2.71%, \$142,000 over the prior year. The largest portion of the District's net assets is invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$83,000 or 7% from the prior year.

Unrestricted net assets the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements decreased approximately \$45,000 or 7%. This was primarily due to a \$180,000 decrease in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4 Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
2011	2010	2011	2010	2011	2010	2010-2011	
Revenues:							
Program revenues:							
Charges for services and sales	\$ 146	91	121	113	267	204	30.88%
Operating grants, contributions and restricted interest	1,476	1,683	134	134	1,610	1,817	-11.39%
General revenues:							
Property tax	3,290	2,840	-	-	3,290	2,840	15.85%
Income surtax	410	392	-	-	410	392	4.59%
Statewide sales, services and use tax	472	479	-	-	472	479	-1.46%
Unrestricted state grants	2,022	1,719	-	-	2,022	1,719	17.63%
Unrestricted investment earnings	12	13	-	-	12	13	-7.69%
Other	33	19	-	-	33	19	73.68%
Total revenues	<u>7,861</u>	<u>7,236</u>	<u>255</u>	<u>247</u>	<u>8,116</u>	<u>7,483</u>	<u>8.46%</u>
Program expenses:							
Governmental activities:							
Instruction	4,910	4,726	-	-	4,910	4,726	3.89%
Support services	1,980	1,844	-	-	1,980	1,844	7.38%
Non-instructional programs	-	-	253	248	253	248	2.02%
Other expenses	830	685	-	-	830	685	21.17%
Total expenses	<u>7,720</u>	<u>7,255</u>	<u>253</u>	<u>248</u>	<u>7,973</u>	<u>7,503</u>	<u>6.26%</u>
Change in net assets	<u>\$ 141</u>	<u>(19)</u>	<u>2</u>	<u>(1)</u>	<u>143</u>	<u>(20)</u>	<u>-815.00%</u>

Property tax, income surtax, statewide sales, services and use tax and state grants accounts for state aid account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenditures, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
Instruction	\$ 4,910	4,726	3.89%	3,592	3,249	10.56%
Support services	1,980	1,844	7.38%	1,957	1,826	7.17%
Other expenses	830	685	21.17%	550	406	35.47%
Totals	\$ 7,720	7,255	6.41%	6,099	5,481	11.28%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$145,507.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$893,142.
- The net cost of governmental activities was financed with \$3,700,387 in property and income surtaxes and \$2,022,418 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$254,373 and expenses totaled \$252,812. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, South O'Brien Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well as the District completed the year, its governmental funds reported combined fund balances of \$1,748,807; 7% below last year's ending fund balances of \$1,885,879.

Governmental Fund Highlights

- The General Fund balance decreased 21% from \$863,612 in fiscal 2010 to \$683,504 in fiscal 2011. Inadequate allowable growth hampers the District's efforts to balance the budget in recent years.
- The Physical Plant and Equipment Levy Fund (PPEL) balance increased from \$213,188 in fiscal 2010 to a balance of \$287,360 in fiscal 2011.
- The Capital Projects Fund balance decreased from \$665,389 at June 30, 2010 to \$562,556 on June 30, 2011.

Proprietary Fund Highlights

School Nutrition Fund net assets increased slightly from \$101,564 at June 30, 2010 to \$103,125 at June 30, 2011.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. During the year ended June 30, 2011, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District has invested \$4.6 million (net of depreciation) in a broad range of assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year equaled \$339,600.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-2011
Land	\$ 59	51	-	-	59	51	15.69%
Improvements	117	186	-	-	117	186	-37.10%
Buildings	3,739	3,731	-	-	3,739	3,731	0.21%
Furniture and equipment	716	777	56	57	772	834	-7.43%
Totals	\$ 4,631	4,745	56	57	4,687	4,802	-2.39%

Long-Term Debt

At year end, the District had \$380,000 in capital loan notes outstanding, \$650,000 in revenue bonds outstanding and \$396,378 in early retirement obligations. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District also began reporting other postemployment benefits (OPEB) that will be paid in future years. See Note 9 for a more thorough explanation.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Enrollment declined and budget guarantee reduction will be reflected in the fiscal 2011 budget.
- There will be no new money for fiscal 2012. Cost reviews in all areas will have to be done to maintain the general fund and still offer an outstanding educational curriculum.
- Reducing agricultural land valuation during fiscal 2004 negatively impacted our PPEL levy by approximately \$55,000 a year. Over a ten year period, PPEL receipts will be less by at least \$550,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dee Ann Lansink, School Business Manager, South O'Brien Community School District, 206 South Rutledge Street, Paullina, Iowa 51046.

Basic Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental	Business Type Activities	
	Activities	School Nutrition	Total
Assets			
Cash	\$ 2,284,589	46,846	2,331,435
Receivables:			
Property tax:			
Current year	53,565	-	53,565
Succeeding year	3,389,912	-	3,389,912
Income surtax - succeeding year	357,932	-	357,932
Due from other governments	156,684	-	156,684
Other receivables	28,602	102	28,704
Inventories	-	8,940	8,940
Bond issue costs	2,470	-	2,470
Capital assets, net of accumulated depreciation	4,631,017	56,505	4,687,522
Total assets	10,904,771	112,393	11,017,164
Liabilities			
Accounts payable	119,774	29	119,803
Accrued payroll and benefits	600,916	5,201	606,117
Accrued interest payable	19,495	-	19,495
Unearned revenue	-	4,038	4,038
Deferred revenue:			
Federal programs	53,943	-	53,943
Succeeding year property tax	3,389,912	-	3,389,912
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	185,000	-	185,000
Revenue bonds	210,000	-	210,000
Early retirement	64,000	-	64,000
Portion due after one year:			
Net OPEB liability	12,332	-	12,332
Capital loan notes	195,000	-	195,000
Revenue bonds	440,000	-	440,000
Early retirement	332,378	-	332,378
Total liabilities	5,622,750	9,268	5,632,018
Net assets			
Invested in capital assets, net of related debt	3,601,017	56,505	3,657,522
Restricted for:			
Categorical funding	78,729	-	78,729
Student activities	77,381	-	77,381
Management levy purposes	138,006	-	138,006
School infrastructure	562,556	-	562,556
Physical plant and equipment	287,360	-	287,360
Unrestricted	536,972	46,620	583,592
Total net assets	\$ 5,282,021	103,125	5,385,146

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest				
	Charges for Service		Governmental Activities	Business Type Activities	Total
Expenses					

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Operating Grants, Contributions and Restricted Interest			
	Charges for Service	Governmental Activities	Business Type Activities	Total
Expenses				
Business type activities:				
Non-instructional programs:				
Nutrition services	252,812	121,120	133,253	-
				1,561
Total	\$ 7,973,292	266,627	1,608,911	(6,099,315)
				1,561
				(6,097,754)
General Revenues:				
Property tax levied for:				
General purposes		\$ 2,760,093	-	2,760,093
Management levy		244,002	-	244,002
Capital outlay		286,005	-	286,005
Income surtax:				
General purposes		246,172	-	246,172
Capital outlay		164,115	-	164,115
Statewide sales and services tax		472,243	-	472,243
Unrestricted state grants		2,022,418	-	2,022,418
Unrestricted investment earnings		12,143	-	12,143
Other		32,895	-	32,895
Total general revenues		6,240,086	-	6,240,086
Change in net assets		140,771	1,561	142,332
Net assets beginning of year		5,141,250	101,564	5,242,814
Net assets end of year		\$ 5,282,021	103,125	5,385,146

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

	General	Student Activity	Management	Capital Projects			Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy		
Cash	\$ 1,251,956	76,623	133,418	530,638	291,954		2,284,589
Receivables:							
Property tax:							
Current year	44,943	-	4,029	-	4,593		53,565
Succeeding year	2,830,138	-	254,385	-	305,389		3,389,912
Income surtax - succeeding year	214,759	-	-	-	143,173		357,932
Due from other governments	87,409	-	-	69,275	-		156,684
Other receivables	24,088	3,955	559	-	-		28,602
Total assets	\$ 4,453,293	80,578	392,391	599,913	745,109		6,271,284

Assets

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

	General	Student Activity	Management	Capital Projects			Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy		
Liabilities:							
Accounts payable	\$ 70,033	3,197	-	37,357	9,187		119,774
Accrued payroll and benefits	600,916	-	-	-	-		600,916
Deferred revenue:							
Federal programs	53,943	-	-	-	-		53,943
Succeeding year property tax	2,830,138	-	254,385	-	305,389		3,389,912
Succeeding year income surtax	214,759	-	-	-	143,173		357,932
Total liabilities	3,769,789	3,197	254,385	37,357	457,749		4,522,477
Fund balances:							
Restricted for:							
Categorical funding	78,729	-	-	-	-		78,729
Student activities	-	77,381	-	-	-		77,381
Management levy purposes	-	-	138,006	-	-		138,006
School infrastructure	-	-	-	562,556	-		562,556
Physical plant and equipment	-	-	-	-	287,360		287,360
Unassigned	604,775	-	-	-	-		604,775
Total fund balances	683,504	77,381	138,006	562,556	287,360		1,748,807
Total liabilities and fund balances	\$ 4,453,293	80,578	392,391	599,913	745,109		6,271,284

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2011

Total fund balances of governmental funds (Exhibit C)	\$ 1,748,807
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**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Income surtax receivable at June 30, 2011 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	357,932
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Bond issue cost are reported in the governmental activities but are not reported in the governmental funds as they do not provide current resources.	2,470
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,631,017
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(19,495)
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Long-term liabilities are not due and payable in the current period and, are not reported as liabilities in the governmental funds.

Net OPEB liability	\$ (12,332)	
Capital loan notes	(380,000)	
Revenue bonds	(650,000)	
Early retirement	<u>(396,378)</u>	<u>(1,438,710)</u>

Net assets of governmental activities (Exhibit A)	<u>\$ 5,282,021</u>
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	General	Student Activity	Management	Capital Projects			Debt Service	Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy			
Revenues:								
Local sources:								
Local tax	\$2,972,477	-	244,002	472,243	427,595	-	-	4,116,317
Tuition	136,813	-	-	-	-	-	-	136,813
Other	77,877	261,067	12,655	1,640	1,907	395	-	355,541
State sources	2,819,183	-	156	-	184	-	-	2,819,523
Federal sources	374,179	-	-	-	-	-	-	374,179
Total revenues	6,380,529	261,067	256,813	473,883	429,686	395	-	7,802,373
Expenditures:								
Current:								
Instruction	4,526,601	234,574	93,526	-	-	-	-	4,854,701
Support services:								
Student services	149,953	-	-	-	-	-	-	149,953
Instructional staff services	217,089	-	-	162,581	20,122	-	-	399,792
Administration services	657,018	-	62,896	-	544	-	-	720,458
Operation and maintenance of plant services	422,797	-	41,713	6,880	39,912	-	-	511,302
Transportation services	311,602	-	13,474	-	-	-	-	325,076
	1,758,459	-	118,083	169,461	60,578	-	-	2,106,581

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2011

	General	Student Activity	Management	Capital Projects			Debt Service	Total
				Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy			
Other expenditures:								
AEA flowthrough	278,142	-	-	-	-	-	-	278,142
Long-term debt:								
Principal	-	-	-	-	-	-	385,000	385,000
Interest	-	-	-	-	-	-	52,840	52,840
Services	-	-	-	-	-	-	3,651	3,651
Facilities acquisition and construction	-	-	-	172,027	89,068	-	-	261,095
	278,142	-	-	172,027	89,068	-	441,491	980,728
Total expenditures	6,563,202	234,574	211,609	341,488	149,646	-	441,491	7,942,010
Excess (deficiency) of revenues over (under) expenditures	(182,673)	26,493	45,204	132,395	280,040	-	(441,096)	(139,637)
Other financing sources (uses):								
Sale of property	2,565	-	-	-	-	-	-	2,565
Operating transfers in	-	-	-	-	-	-	441,096	441,096
Operating transfers out	-	-	-	(235,228)	(205,868)	-	-	(441,096)
Total other financing sources (uses)	2,565	-	-	(235,228)	(205,868)	-	441,096	2,565
Net change in fund balances	(180,108)	26,493	45,204	(102,833)	74,172	-	-	(137,072)
Fund balances beginning of year	863,612	50,888	92,802	665,389	213,188	-	-	1,885,879
Fund balances end of year	\$ 683,504	77,381	138,006	562,556	287,360	-	-	1,748,807

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2011

Net change in fund balances - total governmental funds (Exhibit E) \$ (137,072)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities this represents the change in income surtax receivable from the prior fiscal year.

56,313

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 218,560	
Depreciation expense	<u>(332,444)</u>	(113,884)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the statement of activities.

385,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Other postemployment benefits	(4,072)	
Early retirement	<u>(51,226)</u>	(55,298)

Bond issuance costs are reported in governmental funds as expenditures. However, these amounts are deferred and amortized in the Statement of Activities.

(1,213)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

6,925

Change in net assets of governmental activities (Exhibit B) \$ 140,771

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 121,120
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	57,633
Benefits	22,045
Services	9,939
Supplies	156,039
Depreciation	7,156
Total operating expenses	<u>252,812</u>
Operating (loss)	<u>(131,692)</u>
Non-operating revenues:	
State sources	2,778
Federal sources	130,213
Interest income	262
	<u>133,253</u>
Net profit	1,561
Net assets beginning of year	<u>101,564</u>
Net assets end of year	<u>\$ 103,125</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 122,140
Cash payments to employees for services	(83,720)
Cash payments to suppliers for goods or services	<u>(133,572)</u>
Net cash (used by) operating activities	<u>(95,152)</u>
Cash flows from non-capital financing activities:	
State grants received	2,778
Federal grants received	<u>106,893</u>
Net cash provided by non-capital financing activities	<u>109,671</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(7,177)
Cash flows from investing activities:	
Interest on investments	<u>262</u>
Net increase in cash and cash equivalents	7,604
Cash and cash equivalents beginning of year	<u>39,242</u>
Cash and cash equivalents end of year	<u>\$ 46,846</u>
Reconciliation of operating (loss) to net cash (used by)	
operating activities:	
Operating (loss)	\$ (131,692)
Adjustments to reconcile operating (loss) to net cash	
(used by) operating activities:	
Depreciation	7,156
Commodities used	23,320
Decrease in other receivables	93
Decrease in inventory	9,057
Increase in accounts payable	29
(Decrease) in accrued payroll and benefits	(4,042)
Increase in unearned revenue	<u>927</u>
	<u>\$ (95,152)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received federal commodities valued at \$23,320.

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	Private Purpose Trusts	Foundation/ Scholarships
Assets		
Cash	\$ 63,763	
Total assets	63,763	
Net Assets		
Foundation	59,846	
Reserved for scholarships	3,917	
Total net assets	\$ 63,763	

See notes to financial statements.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	Private Purpose Trusts	Foundation/ Scholarships
Additions:		
Local sources:		
Gifts and contributions	\$ 61,392	
Interest income	65	
	<u>61,457</u>	
Deductions		
Instruction:		
Regular:		
Scholarships	1,850	
Other	<u>11,392</u>	
	<u>13,242</u>	
Change in net assets	48,215	
Net assets beginning of year	<u>15,548</u>	
Net assets end of year	<u>\$ 63,763</u>	

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Paullina, Primghar and Sutherland Iowa, and agricultural area in O'Brien, Cherokee and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, South O'Brien Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

In June 2002, the District established the South O'Brien Community School District Foundation by appointing a board of trustees to incorporate a foundation under the Iowa Non-Profit Corporation Act, Iowa Code Chapter 504A. The focus of the Foundation is exclusively for charitable, scientific and educational purposes of the District. The financial activity of the Foundation is included in the financial statements of the South O'Brien Community School District as a blended component unit for the year ended June 30, 2011.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the O'Brien County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Capital Projects - Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund - Statewide Sales, Services and Use Tax is used to account for funds raised by the one cent School Infrastructure statewide sales, services and use tax. These funds are being used for debt retirement and infrastructure expenses.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Funds are used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents - The cash balances of most District funds are invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Intangibles	75,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-50
Improvements other than buildings	15-50
Intangibles	5-10
Furniture and equipment	5-15

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and income surtax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent federal program funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability is deemed to be immaterial at June 30, 2011.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$293,753 pursuant to Rule 29-7 under the Investment Company Act of 1940.

Credit Risk: The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Services.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 51,351	7,302	-	58,653
Capital assets being depreciated:				
Buildings	6,801,662	18,329	-	6,819,991
Improvements	319,843	66,862	-	386,705
Furniture and equipment	3,161,663	126,067	-	3,287,730
Total capital assets being depreciated	10,283,168	211,258	-	10,494,426
Less accumulated depreciation for:				
Buildings	3,071,170	9,773	-	3,080,943
Improvements	133,507	136,164	-	269,671
Furniture and equipment	2,384,941	186,507	-	2,571,448
Total accumulated depreciation	5,589,618	332,444	-	5,922,062
Total capital assets being depreciated, net	4,693,550	(121,186)	-	4,572,364
Governmental activities, capital assets, net	\$ 4,744,901	(113,884)	-	4,631,017
Business type activities:				
Furniture and equipment	\$ 180,087	7,177	-	187,264
Less accumulated depreciation	123,603	7,156	-	130,759
Business type activities capital assets, net	\$ 56,484	21	-	56,505
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 332,444
Business Type activities:				
Food service operations				\$ 7,156

(4) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$278,142 for year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(5) Risk Management

South O'Brien Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	<u>Balance Beginning Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Net OPEB Liability	\$ 8,260	4,072	-	12,332	-
Early Retirement	345,152	140,378	89,152	396,378	64,000
Capital Loan Notes	565,000	-	185,000	380,000	185,000
Revenue Bonds	850,000	-	200,000	650,000	210,000
Total	<u>\$1,768,412</u>	<u>144,450</u>	<u>474,152</u>	<u>1,438,710</u>	<u>459,000</u>

General Obligation Capital Loan Notes

On September 9, 2004, the District issued \$1,000,000 general obligation capital loan notes with an interest rate of 1.650% - 3.650% to provide funds for capital improvements. On April 1, 2005, the District issued \$495,000 general obligation capital loan notes with an interest rate of 3.100% - 4.600% to provide funds for capital improvements.

The annual debt service requirements to maturity for general obligation capital loan notes are as follow:

<u>Year Ending June 30,</u>	<u>\$495,000 Capital Loan Notes</u>		<u>\$1,000,000 Capital Loan Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 65,000	4,795	120,000	8,822	185,000	13,617
2013	70,000	2,520	125,000	4,562	195,000	7,082
Total	<u>\$135,000</u>	<u>7,315</u>	<u>245,000</u>	<u>13,384</u>	<u>380,000</u>	<u>20,699</u>

Revenue Bonds

The statewide sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues by the District. The bonds are not a general obligation of the District.

The resolution providing for the issuance of the statewide sales, services use tax revenue bonds includes the following provisions:

- \$174,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The District was in compliance with all of the provisions during the year ended June 30, 2011.

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	3.75%	\$210,000	25,372	235,372
2013	3.90	215,000	17,498	232,498
2014	4.05	<u>225,000</u>	<u>9,113</u>	<u>234,113</u>
Total		<u>\$650,000</u>	<u>51,983</u>	<u>701,983</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 55 and 64 and have completed at least 20 years of service in the District. Employees must complete an application at least one full year in advance, and it is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a maximum of one-half of one percent of the employee's current teaching salary as a base salary which is multiplied by the number of years of service the employee has rendered to the District. This total amount shall be in addition to the amount provided for salary in the contract for the final year of employment. Early retirement benefits paid during the year ended June 30, 2011 totaled \$89,152.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$278,412, \$255,549, and \$245,099 respectively, equal to the required contributions for each year.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects - Physical Plant and Equipment Levy	\$205,868
Debt Service	Capital Projects - Statewide Sales Services and Use Tax	<u>235,228</u>
		<u>\$441,096</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 84 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 54,397
Interest on net OPEB obligation	207
Adjustment to annual required contribution	(3,928)
Annual OPEB cost	50,676
Contributions made	(46,604)
Increase in net OPEB obligation	4,072
Net OPEB obligation beginning of year	8,260
Net OPEB obligation end of year	\$ 12,332

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$46,604 to the medical plan.

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$52,333	84.2%	\$ 8,260
June 30, 2011	\$50,676	92.0%	\$12,332

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$521,985, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$521,985. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,100,000 and the ratio of the UAAL to covered payroll was 12.7%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information, in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The JAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects, Physical Plant and Equipment Levy	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ -	213,188
Change in fund type classification per implementation of GASB Statement No. 54	<u>213,188</u>	<u>(213,188)</u>
Balances July 1, 2010, as restated	<u>\$213,188</u>	<u>-</u>

Required Supplementary Information

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 4,608,671	121,382	4,730,053	4,678,955	4,678,955	51,098
State sources	2,819,523	2,778	2,822,301	3,101,762	3,101,762	(279,461)
Federal sources	374,179	130,213	504,392	414,300	414,300	90,092
Total revenues	<u>7,802,373</u>	<u>254,373</u>	<u>8,056,746</u>	<u>8,195,017</u>	<u>8,195,017</u>	<u>(138,271)</u>
Expenditures/expenses:						
Instruction	4,854,701	-	4,854,701	5,500,904	5,500,904	646,203
Support services	2,106,581	-	2,106,581	2,226,200	2,226,200	119,619
Non-instructional programs	-	252,812	252,812	375,805	375,805	122,993
Other expenditures	980,728	-	980,728	1,230,547	1,230,547	249,819
Total expenditures/expenses	<u>7,942,010</u>	<u>252,812</u>	<u>8,194,822</u>	<u>9,333,456</u>	<u>9,333,456</u>	<u>1,138,634</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(139,637)	1,561	(138,076)	(1,138,439)	(1,138,439)	1,000,363
Other financing sources (uses)	<u>2,565</u>	<u>-</u>	<u>2,565</u>	<u>3,800</u>	<u>3,800</u>	<u>(383)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(137,072)	1,561	(135,511)	(1,134,639)	(1,134,639)	999,980
Balance beginning of year	1,885,879	101,564	1,987,443	2,000,614	2,000,614	(13,171)
Balance end of year	<u>\$ 1,748,807</u>	<u>103,125</u>	<u>1,851,932</u>	<u>865,975</u>	<u>865,975</u>	<u>986,809</u>

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2011, expenditures did not exceed the budgeted amount in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$562	\$562	0.0%	\$3,960	14.2%
2011	Jul 1, 2009	\$0	\$522	\$522	0.0%	\$4,100	12.7%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
General Athletics	\$ (3,137)	103,147	89,335	10,705
Weight Room Club	60	-	60	-
Cross Country Club	-	449	449	-
HS Football Club	1,715	7,638	7,106	2,247
Basketball Club - Boys	-	9,971	9,243	728
Baseball Club	4,524	3,731	8,255	-
Track Club	(142)	4,718	4,502	74
Basketball Club - Girls	-	6,711	4,303	2,408
Volleyball Club	2,597	17,708	17,539	2,766
Softball Club	-	5,859	3,448	2,411
HS General Athletics Resale	1,808	426	2,234	-
Wolverine Club	100	9,188	9,288	-
Wolverine Snack Shack Club	-	6,070	2,852	3,218
HS Student Council	2,140	2,906	4,226	820
FFA	3,486	47,129	37,680	12,935
Spanish Club	236	-	-	236
Model UN	576	2,009	1,219	1,366
HS Cheerleaders	809	15,325	12,419	3,715
HS Science Club	2,482	28,845	29,371	1,956
National Honor Society	954	1,992	2,187	759
HS Art Club	488	-	170	318
Dinner Theater Club	1,960	5,209	4,905	2,264
PA Book Club	150	45	31	164
HS Instrumental Music Resale	1,488	5,478	5,863	1,103
HS Vocal Music Resale	1,535	124	100	1,559
HS Activity	959	9,063	8,481	1,541
Yearbook Club	3,730	12,578	10,171	6,137
HS Speech Club	1,268	81	903	446
JH Athletics	2,938	12,106	15,044	-
JH Student Council	6,724	569	127	7,166
Elementary Activity	(3,469)	32,033	27,628	936
TAG Club	2,170	188	589	1,769
Kindergarten Activity	105	-	100	5
Clothes for Kids	1,250	1,000	85	2,165
Class of 2009	32	-	32	-
Class of 2010	2,142	-	2,142	-
Class of 2011	360	1,220	1,580	-
Class of 2012	2,233	8,692	10,207	718
Class of 2013	580	1,434	10	2,004
Class of 2014	-	480	10	470
Elementary Playground	6,007	11,050	14,785	2,272
Interest	-	572	572	-
	50,888	375,744	349,251	77,381
Less interaccount transfers		(114,677)	(114,677)	
Total	\$ 50,888	490,421	463,928	77,381

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Ray Ginger Scholarship	\$ 1,592	2	200	1,394
Foundation	11,307	61,431	12,892	59,846
Deil Scholarship	2,649	24	150	2,523
Total	<u>\$ 15,548</u>	<u>61,457</u>	<u>13,242</u>	<u>63,763</u>

See accompanying independent auditor's report.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 4,116,317	3,677,072	3,515,639	3,313,037	3,314,347	3,431,676	3,638,870	3,495,376
Tuition	136,813	88,895	189,657	134,946	136,085	121,513	104,325	107,411
Other	355,541	313,059	290,187	327,538	364,765	351,465	351,552	244,343
State sources	2,819,523	2,427,427	3,143,667	3,231,147	3,010,114	2,958,051	2,725,862	2,703,898
Federal sources	374,179	691,602	299,451	287,977	447,641	313,666	324,853	291,421
Total	\$ 7,802,373	7,198,055	7,438,601	7,294,645	7,272,952	7,176,371	7,145,462	6,842,449
Expenditures:								
Instruction	\$ 4,854,701	4,570,002	4,416,774	4,288,971	4,169,696	4,041,908	3,867,494	3,857,978
Support services:								
Student	149,953	165,072	166,623	156,887	158,246	262,464	274,449	303,429
Instructional staff	399,792	306,553	299,587	253,012	239,722	312,508	388,374	311,651
Administration	720,458	738,082	702,128	685,071	679,553	672,739	583,215	592,879
Operation and maintenance of plant	511,302	466,013	540,827	503,439	543,007	586,845	480,195	484,229
Transportation	325,076	381,294	311,771	426,176	427,034	349,115	288,567	362,863
Other expenditures:								
Facilities acquisition	261,095	197,671	138,576	339,141	163,257	2,556,606	914,354	373,558
Debt service:								
Principal	385,000	365,000	366,449	356,454	346,454	331,454	111,454	11,454
Interest and services	56,491	67,442	72,881	90,056	101,181	173,909	51,599	4,467
AEA flowthrough	278,142	276,664	257,835	252,401	244,936	239,076	235,162	241,662
Total	\$ 7,942,010	7,533,793	7,273,451	7,351,608	7,073,086	9,526,624	7,194,863	6,544,170

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of the
South O'Brien Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of South O'Brien Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South O'Brien Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of South O'Brien Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of South O'Brien Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified no items which we consider to be significant deficiencies.

Compliance and Other Matters

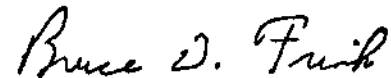
As part of obtaining reasonable assurance about whether South O'Brien Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

South O'Brien Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit South O'Brien Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of South O'Brien Community School District and other parties to whom South O'Brien Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South O'Brien Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

January 9, 2012

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-11 Auditor Drafting of the Financial Statements and Related Footnote Disclosures - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

I-C-11 Additional Payments to Employees - We noted that payments to employees (half time and greater) for non-contract services were paid through accounts payable rather than through payroll as required by the Internal Revenue Service.

Recommendation - We recommend that 1099 MISC forms be issued as required for these payments previously made and that all future payments be included in payroll.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Expenditures for the year ended June 30, 2011, did not exceed the certified budget amount in any of the four functions.

II-B-11 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>	<u>Violation</u>
Darrel Rehder Board Member	Event worker/ substitute teacher	\$ 2,355	No, under \$2,500
Robert Reichle Reichle Painting Parent of Athletic Director	Painting	\$ 4,799	Yes, not bid
Aletha Boer A+ Painting Spouse of employee	Painting	\$ 4,858	No, properly bid
Dustin Van Beek Dan's Electric Spouse of employee	Lights, air conditioning and service calls	\$ 12,932	Yes, \$9,865 properly bid but \$3,067 of unbid items
Brad Puhmann Puhmann Excavating Spouse of employee	Tiling/excavation	\$ 6,626	Yes, not bid
Kent Faust South O'Brien Insurance Spouse of employee	Property insurance	\$117,337	Yes, not bid
John Muller Muller's Spouse of employee	Carpet/blinds	\$ 6,373	Yes, not bid

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

Paul Miller Whiskey Creek Spouse of employee	Cabinet installation	\$ 50	No, did not exceed allowable limit
Rick Weidaman Weidamans True Value Bus Driver	Supplies	\$ 4,870	Yes, not bid
Kiley & Melanie Yates JKM Screen Printing Teacher/Literacy Specialist	Resale items	\$ 6,148	Yes, not bid

Each item has a notation as to whether it is or is not in compliance with Chapter 279.7A of the Code of Iowa which allows payments of up to \$2,500 with certain exceptions.

Recommendation - The District should review these expenditures annually to ensure compliance with the Code of Iowa.

Response - We will review these on an annual basis and consult with our attorney when needed.

Conclusion - Response accepted.

- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-H-11 Certified Annual Report - The Certified Annual Report was certified timely with the Department of Education.
- II-I-11 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-J-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2011

II-L-11 Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 665,389
Revenues/transfers in:		
Sales tax revenues	\$472,243	
Other local revenues	<u>1,640</u>	<u>473,883</u>
		\$1,139,272
Expenditures/transfers out:		
School infrastructure construction	\$172,027	
Equipment	169,461	
Transfers to other funds:		
Debt service fund	<u>235,228</u>	<u>576,716</u>
Ending balance		\$ <u>562,556</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 Of Taxable Valuation	Property Tax Dollars
Debt Service	\$ <u>.92</u>	\$ <u>235,228</u>